



October 6, 2009

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Ms. Margaret Liston
Chief, Financial Management Section
California Department of Health Care Services
Medi-Cal Managed Care Division
1501 Capital Avenue, PO Box 997413
MS 4400
Sacramento, CA 95899-7413

Revision to Original Certification Dated November 26, 2008

Subject: Revised Two-Plan Model Contract Year 2009 Rate Range Development and Certification

Dear Ms. Liston:

The California Department of Health Care Services (DHCS) contracted with Mercer Government Human Services Consulting (Mercer), part of Mercer Health & Benefits LLC, to develop revised actuarially sound capitation rate ranges for use during the last nine months of the contract year 2009 Two-Plan contract period. The 2009 Two-Plan contract period began October 1, 2008, and ended September 30, 2009. The revised rate ranges reflect the impact of a legislated policy change implemented by DHCS with an effective date of January 1, 2009. The actuarially sound rate ranges accompanying this letter reflect adjusted rate ranges applicable for the time period from January 1, 2009, through September 30, 2009.

Previously, Mercer developed annual contract year 2009 actuarially sound rate ranges and provided DHCS with a rate development and certification letter dated November 26, 2008, which included an exhibit detailing the contract year 2009 rate ranges. The overall rate-setting methodology used in the development of these revised actuarially sound rate ranges has not changed from the method utilized in the original contract year 2009 rate range development.

This letter presents an overview of the analyses and methodology used in Mercer's revised managed care rate range development.



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Rate methodology

Overview

The revised capitation rate ranges for the DHCS Two-Plan Model managed care program were developed in accordance with rate-setting guidelines established by the Centers for Medicare and Medicaid Services (CMS).

Base data

There have been no changes made to the base data in the development of the revised rate ranges. If desired, please refer to the November 26, 2008, certification letter for more detail related to the development of the base data.

Other elements

There have also been no changes made to the category of aid groupings, data smoothing methods, trends, prior program changes analyses, rate range modeling approach or the administration and underwriting profit/risk/contingency loading percentages. If desired, please refer to the November 26, 2008, certification letter for more detail related to these elements of the certification.

Revision

As mentioned previously, DHCS is implementing a newly legislated policy change with an effective date of January 1, 2009. The change, referred to as "AB 1422 Tax", categorizes Medi-Cal Managed Care plans under California Revenue and Taxation Code 12201, and at a tax rate under Code 12202, as administered by the California Department of Insurance.

All other policy changes (defined as program changes in the November 26, 2008, certification) were unaffected. If desired, please refer to that certification letter for more details.

Overall, the net change of this adjustment yields an approximate increase of 2.55 percent to the current rate ranges. This figure is slightly above the 2.35 percent for two reasons. First, because the 2.35 percent is of the total capitation revenue, we must "divide into" the current capitation rates rather than taking the 2.35 percent and "multiplying by". This requirement increases the impact of the change to 2.41 percent. The extra 0.14 percent to 2.55 percent



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is due to the Quality Improvement Fee (which is applied to the total premium). DHCS and the Two-Plan MCOs have negotiated an additional administrative expense of 5.50 percent under a Quality Improvement Fee (QIF) contractual requirement. If desired, please refer to the November 26, 2008, certification letter for more details.

Rate range certification

In preparing the rate ranges described, Mercer has used and relied upon enrollment, eligibility, claim, reimbursement level, benefit design, and financial data and information supplied by DHCS, its MCOs and its vendors. DHCS, its MCOs and its vendors are responsible for the validity and completeness of this supplied data and information. We have reviewed the data and information for internal consistency and reasonableness, but we did not audit it. In our opinion the data used for the rate development process is appropriate for the intended purposes. If the data and information are incomplete or inaccurate, the values shown in this report and associated exhibits may need to be revised accordingly.

Mercer certifies that the contract year 2009 Two-Plan rate ranges were developed in accordance with generally accepted actuarial practices and principles, and are appropriate for the Medi-Cal covered populations and services under the managed care contract. The undersigned actuaries are members of the American Academy of Actuaries and meet its qualification standards to certify to the actuarial soundness of Medicaid managed care capitation rates.

Rate ranges developed by Mercer are actuarial projections of future contingent events. Actual MCO costs will differ from these projections. Mercer has developed these rate ranges on behalf of DHCS to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and accordance with applicable law and regulations. Use of these rate ranges for any purpose beyond that stated may not be appropriate.

MCOs are advised that the use of these rate ranges may not be appropriate for their particular circumstance and Mercer disclaims any responsibility for the use of these rate ranges by MCOs for any purpose. Mercer recommends that any MCO considering contracting with DHCS should analyze its own projected medical expense, administrative expense and any other premium needs for comparison to these rate ranges before deciding whether to contract with DHCS.

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This certification letter assumes the reader is familiar with the Medi-Cal program, Medi-Cal eligibility rules and actuarial rating techniques. It is intended for DHCS and CMS, and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results.

If you have any questions on any of the above, please feel free to contact Mike Nordstrom at +1 602 522 6510, Jim Meulemans at +1 602 522 8597 or Branch McNeal at +1 602 522 6599.

Sincerely,

A handwritten signature in blue ink that reads "Michael E. Nordstrom" followed by "ASA, MAAA" in a smaller, less legible script.

Michael E. Nordstrom, ASA, MAAA

A handwritten signature in blue ink that reads "James J. Meulemans" followed by "ASA, MAAA" in a smaller, less legible script.

James J. Meulemans, ASA, MAAA

MEN/JJM/lgm

Copy:
Stuart Busby, DHCS
Arlene Livingston, DHCS
Gary McHolland, DHCS
Sylvia Wong, DHCS
Sundee Easter, Mercer
Branch McNeal, Mercer
Gerry Smedinghoff, Mercer